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Chief Deputy Director

From : Kerry Gantt (*signed copy on file*)
Acting Chief, Audit Services

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Subject : **Internal Control Review – Travel Expense Claims**

File No. : IIIA.18-1095

Introduction

We have reviewed the Department of Rehabilitation (DOR) internal accounting and administrative controls over travel expense claims (TECs) with a focus on TECs submitted by DOR employees for the period February 2007 through February 2008. More than 8,000 revolving fund checks, totaling \$1,253,900, were issued to reimburse employees for travel related expenses during this period.

Because governments are susceptible to inefficiencies, fraud, waste, and abuse, the Financial Integrity and State Manager's Accountability (FISMA) Act, Government Code §13400-13407, was enacted to inhibit waste of resources and create savings. FISMA states that management is responsible for the establishment and maintenance of internal accounting and administrative controls. Internal accounting controls comprise the methods and procedures directly associated with safeguarding assets and assuring the reliability of accounting data. Internal administrative controls comprise the methods and procedures that address operational efficiency and adherence to management's policies.

Scope

We conducted a review and evaluation of the DOR's accounting and administrative controls in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) published by the Institute of Internal Auditors, as required by Government Code §13886.5. We conducted tests necessary to determine that controls exist and are operative. Fieldwork was conducted during the period October 2008 through January 2009.

We focused on employees who received reimbursements totaling \$5,000 or more during the period February 2007 through February 2008. We reviewed a sample of 130 TECs submitted by 47 employees to determine whether the expenses on the TECs were claimed in accordance with required travel. Further, we reviewed controls related to TEC processing to determine if any deficiencies exist.

Conclusion

Controls exist to essentially ensure travel expenses are appropriately claimed and that TECs are properly processed and reimbursed; however, we identified deficiencies and have made recommendations for improved effectiveness in the areas of outdated travel policies, procedures, and forms; and in the areas of TEC preparation, processing, and approvals. **(Attachment 1 – Results of the Review)**.

The effectiveness of controls can change over time. Limitations that hinder the effectiveness of controls may include: resource constraints, faulty judgments, unintentional errors, circumvention, and management overrides; however, an audit may not always detect these limitations.

Reports on Corrective Action

DOR Management develop a corrective action plan which includes specific steps the DOR will take (or has taken) to complete the corrective actions and the timetable for completing those steps; and submit the plan to Audit Services within 45 days of the date of this report for review and approval.

RESULTS OF THE REVIEW

Finding 1: DOR travel policies exist but are outdated

Travel guidance contained in DOR's Rehabilitation Administrative Manual (RAM), Chapter 3 was last revised in August 1982 and does not reflect current travel policies and procedures. Utilization of the RAM that contains guidance applicable 27 years ago may lead to inappropriate travel expenses claimed and unsubstantiated reimbursement.

Recommendation

DOR update RAM to reflect current State and Departmental travel policies and procedures.

Finding 2: Inconsistencies exist between the DOR computer generated TEC form/instructions and the current State STD 262.

Although the Department of Personnel Administration (DPA) revised the State STD 262 TEC form and instructions in 7/2005 and 9/2007, the DOR computer generated TEC form and instructions were last revised in 10/1992. DOR's TEC differs from the current State STD 262 as follows:

- The DOR TEC does not allow entry of the month in which the first travel expenses claimed were incurred. For example, an employee who traveled during the months of April and May 2007 must enter 05/2007 in the Month/Year field, rather than 04/2007 as required. Due to the system deficiency, DOR Accounting staff spend time handwriting the correct month on the TEC prior to submission to State Controller's office for processing.
- The DOR TEC instructions for claiming expenses related to Lodging, Meals, Carfare/Tolls/Parking, and Business Expense do not reflect current travel provisions. For example: the DOR form indicates that a receipt is required for any lodging expenditure of \$25 or more; however, the current State STD 262 instructions require a receipt for any lodging expense. The DOR form also stipulates that the employee attach a voucher for any parking charge in excess of \$6, rather than in excess of \$10.00 as is currently required. Erroneous instructions can lead to confusion resulting in non-compliance with current travel requirements.

Recommendation

DOR determine if system edits can be made to allow for entry of the month/year of travel as required. Further, the DOR computer generated TEC form instructions need to be updated to reflect current travel provisions or DOR consider whether it is feasible for employees to utilize the State STD 262 available at the DPA or DGS website.

FINDING 3: Travel expenses were not always claimed in accordance with State and DOR policies sometimes resulting in reimbursements to which employees were not entitled.

- A. Employees claimed meal expenses when the cost of the meal was already included in the hotel expense/conference fee on 13 of the 130 TEC forms reviewed. For example, employees who stayed at Embassy Suites claimed breakfast per diem even though the hotel served a complimentary full breakfast meal. Employees who receive a meal as part of State travel are required to reduce their per diem claim by the cost for that meal.

The DOR system auto-fills per diem on the TEC based on trip times entered. Employees may not have been aware of their ability to override the auto-filled amount when they were not entitled to the per diem.

Recommendation:

DOR ensure that employees seek and are reimbursed for meal expenses in accordance with applicable travel policies and that employees are aware of the capability to override the auto-filled per diem when appropriate.

- B. Employees claimed and may have been inappropriately reimbursed for airport parking expenses that were not for the least costly parking. For example, employees parked at Sacramento airport at \$12 per day when the least costly parking was \$7 per day.

A DORALL memo dated 9/18/07 advised employees that DPA requires state employees on authorized travel status to use the least-costly option when parking at airports. However, if parking above the lowest-cost option is in the best interest of the DOR, a justification substantiating the necessity for the additional cost must be submitted with the TEC. We found that a justification substantiating the increased parking costs was not provided with 4 out of 47 TECs processed subsequent to issuance of the DORALL.

Additionally, the requirement that a justification be submitted if parking above the lowest-cost option is in the "best interest of the Department" is ambiguous.

Employees may have been uncertain what was meant by in the “best interest of the Department”.

A memo dated September 29, 2008, was sent to all staff reiterating the requirement to use the least costly option. It further clarified that TECs requesting parking above the least costly option will be reduced unless a substantive written justification is submitted. The language regarding “best interest of the Department” was no longer included.

Recommendation

DOR ensure that employees use the least-costly option when parking at airports or if the least costly option is not utilized, adequate justification must be provided prior to reimbursement. Additionally, DOR consider incorporating guidance sent in the September 29, 2008 memo into RAM Chapter 3.

- C. CCR Title II 599.626 stipulates that when a trip is commenced or terminated at claimant's home, the distance traveled shall be computed from either his/her headquarters or home, whichever shall result in the lesser distance. The exception is when travel to or from a common carrier commences or terminates one hour before or one hour after the regularly scheduled work day or on a regularly scheduled day off, distance may be computed from the employee's residence.

Several employees inappropriately overstated mileage for travel to the airport when taking into account the employee's residence address, headquarters address, and normal work hours. For example, one employee's normal work start time was 8:00am. The employee reported a trip start time of 10:00am and claimed 50 miles from residence to airport, rather than the lesser distance of 13 miles from headquarters to airport. Mileage claimed by these employees should have been approximately 139 miles but was reported at 364 miles, resulting in an overpayment of 38%.

Recommendation

DOR enforce the policy to ensure mileage is accurately claimed. Additionally, DOR consider incorporating examples into RAM Chapter 3 for calculating mileage taking into account the residence address, headquarters address, and the normal work hours.

FINDING 4: Dates and times of travel indicated on the TEC did not always appear supported calling into question some travel expenditures.

Travel dates and trip times indicated on the TEC did not always appear supported by

information on the employee's Individual Attendance Summary and/or the flight itinerary. For instance:

- an employee reported 8 hours of vacation and claimed travel related expenses on the same day.
- an employee claimed travel related expenses on a paid State holiday.
- an employee claimed lunch per diem having reported a trip end time of 4:30pm even though the flight itinerary indicated the flight arrived at 9:50am.

It is unclear whether employee oversight when reporting dates and times of travel on the TEC contributed to these findings or if there were unique circumstances; however, the employee signs the TEC and Individual Attendance Summary certifying that the information on the forms are true and accurate.

Recommendation

DOR ensure that employees report accurate dates and times of travel and associated travel expenses on the TEC. Any unique circumstances surrounding travel should be discussed with the employee's supervisor and approving official.

FINDING 5: It appears TECs were approved and processed despite missing required data.

- A. We identified 403 instances on the 130 TECs reviewed, where an entry was not made indicating trip start and end time as required.

The DOR system does not force an employee to enter trip times on day trips when per diem is not claimed. Although it is required, it has not been a consistent or imposed practice for staff to indicate departure and return time for travel on the same date.

Recommendation

DOR implement policies to ensure that employees enter departure and return times for all trips identified on the TEC, including trips of less than 24 hours where per diem is not claimed. Indicating the trip time facilitates the assessment of appropriateness of travel and expenses claimed.

- B. The residence address indicated on the TEC was not always the employee's primary dwelling address. The employee's residence address was carried forward to the TEC from the DOR Management Information User Profile (FAS471). If the information is inaccurate or missing on the user profile screen, it will not transfer correctly onto the TEC.

Recommendation

DOR ensure that employee residence addresses are accurately entered in the employee User Profile which can typically be accessed and edited by supervisors. Further, TECs submitted for reimbursement should be reviewed carefully by employees and approving officials to ensure the residence address field is accurate.

- C. Several of the TECs did not contain the employee's Normal Work Hours. The employee work hours are a critical factor in determining appropriate mileage for TECs that contain mileage expense claimed for travel to or from a common carrier.

Work hours on the employee's TEC are carried forward from the DOR Management Information User Profile (FAS473). The employee work hours were not input into the user profile and therefore did not appear on the TEC.

Recommendation

DOR ensure employee work hours are accurately identified in the employee User Profile which can typically be accessed and edited by supervisors. Further, TECs submitted for travel reimbursement should be reviewed carefully by employees and approving officials to ensure work hours are identified.

- D. DOR employees can enter the purpose of the trip in the same field (line) as the trip location and/or at the bottom of the page in the Purpose of Trip, Remarks, and Details section. However, the purpose was not always included on the TEC, did not always support that travel was for official State business, or was not apparent on claims with multiple trips.

Recommendation

DOR ensure that employees enter the purpose of the trip on the TEC and that it is clearly stated, particularly when the employee is claiming expenses for several trips with different purposes/objectives.

FINDING 6: Effective controls are not in place to ensure appropriate approvals are obtained.

- A. Four employees attended a conference on October 10-11, 2007 and claimed associated expenses on a TEC. None of the TECs contained a signature of authorization in the Signature and Title of Authority for Special Expenses field of the TEC, as required.

DOR employees are in multiple locations throughout the State; however, a control process has not been established to track all employees attending the

same convention/conference to ensure claims for travel related expenses are approved by the Department head or a delegated representative.

CCR Title II 599.635(c) states, where more than two individuals (officers or employees) from the same department are attending the same convention or conference, each claim must be approved by the department head or delegated representative.

Recommendation

DOR consider establishing a centralized process to track all employees attending the same convention/conference. This centralized process may help facilitate obtaining the department head or a delegated representative's approval as required. Further, it will allow DOR to assess the feasibility and cost benefit of multiple employees attending the same conference.

- B. Employees were reimbursed for lodging expenses that exceeded the maximum allowable lodging rate and the Excess Lodging Request/Approval form (STD 255c) was either not attached to the TEC; did not contain DPA approval; or did not reflect dates of approvals.

Without proper approvals being obtained and documented, the employee is at risk of having to pay the amount over the maximum allowable rate, or SCO could return the TEC to the DOR without reimbursement.

CCR Title II and SAM requires that a STD 255c be submitted when no lodging is available at the State maximum rate or when it is cost effective. The form must be submitted and approved prior to the trip taking place. Advance Departmental approval is required for regular travel over current state rate up to \$140.00 per night and for conferences/conventions up to \$150.00 per night. Advance Departmental and DPA approval is required for regular travel over \$140.00 per night and for conferences/conventions over \$150.00 per night.

Recommendation

DOR ensure that the requirements for excess lodging are met and that the STD 255c is submitted, contains appropriate approvals, and reflects dates of approvals prior to the trip as required.